

 FINAL DECISION

AusNet Services transmission determination

2017-2022

Attachment 12 – Pricing methodology

April 2017

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1. Note
2. This attachment forms part of the AER's final decision on AusNet Services’ revenue proposal 2017–22. It should be read with other parts of the final decision.
3. The final decision includes the following documents:
4. Overview
5. Attachment 1 – maximum allowed revenue
6. Attachment 2 – regulatory asset base
7. Attachment 3 – rate of return
8. Attachment 4 – value of imputation credits
9. Attachment 5 – regulatory depreciation
10. Attachment 6 – capital expenditure
11. Attachment 7 – operating expenditure
12. Attachment 8 – corporate income tax
13. Attachment 9 – efficiency benefit sharing scheme
14. Attachment 10 – capital expenditure sharing scheme
15. Attachment 11 – service target performance incentive scheme
16. Attachment 12 – pricing methodology
17. Attachment 13 – pass through events

Attachment 14 – negotiated services

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1. Shortened forms

| 1. Shortened form
 | 1. Extended form
 |
| --- | --- |
| 1. AARR
 | 1. aggregate annual revenue requirement
 |
| 1. AEMC
 | 1. Australian Energy Market Commission
 |
| 1. AEMO
 | 1. Australian Energy Market Operator
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. ASRR
 | 1. annual service revenue requirement
 |
| 1. augex
 | 1. augmentation expenditure
 |
| 1. capex
 | 1. capital expenditure
 |
| 1. CCP
 | 1. Consumer Challenge Panel
 |
| 1. CESS
 | 1. capital expenditure sharing scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. EBSS
 | 1. efficiency benefit sharing scheme
 |
| 1. ERP
 | 1. equity risk premium
 |
| 1. MAR
 | 1. maximum allowed revenue
 |
| 1. MRP
 | 1. market risk premium
 |
| 1. NEL
 | 1. national electricity law
 |
| 1. NEM
 | 1. national electricity market
 |
| 1. NEO
 | 1. national electricity objective
 |
| 1. NER
 | 1. national electricity rules
 |
| 1. NSP
 | 1. network service provider
 |
| 1. NTSC
 | 1. negotiated transmission service criteria
 |
| 1. opex
 | 1. operating expenditure
 |
| 1. PPI
 | 1. partial performance indicators
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RAB
 | 1. regulatory asset base
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. repex
 | 1. replacement expenditure
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue and pricing principles
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STPIS
 | 1. service target performance incentive scheme
 |
| 1. TNSP
 | 1. transmission network service provider
 |
| 1. TUoS
 | 1. transmission use of system
 |
| 1. WACC
 | 1. weighted average cost of capital
 |

# Pricing methodology

This attachment sets out our final decision on AusNet Services' proposed pricing methodology for the 2017–22 regulatory control period.

A pricing methodology must be specified as part of our transmission determination[[1]](#footnote-1) and answers the question ‘who should pay how much'[[2]](#footnote-2) in order for a transmission business to recover its efficient costs. To do this, the National Electricity Rules (NER) set out that it must provide a 'methodology, formula, process or approach'[[3]](#footnote-3) that when applied:

* allocates the aggregate annual revenue requirement to the categories of prescribed transmission services provided by the transmission business[[4]](#footnote-4)
* provides the manner and sequence of adjustments to the annual service revenue requirement[[5]](#footnote-5) and allocates that requirement to transmission connection points[[6]](#footnote-6)
* determines the structure of prices that a transmission business may charge for each category of prescribed transmission services.[[7]](#footnote-7)

AusNet Services' proposed pricing methodology addresses only the pricing matters for which it has responsibility.[[8]](#footnote-8) These are prescribed entry and exit services. In Victoria, the pricing of all other prescribed transmission services is the responsibility of the Australian Energy Market Operator (AEMO).[[9]](#footnote-9) AEMO is also the co-ordinating network service provider in Victoria. It is therefore responsible for allocating the aggregate annual revenue requirement (AARR) for all transmission businesses in the region including AusNet Services.[[10]](#footnote-10)

## Final decision

Our final decision is to approve AusNet Services' proposed pricing methodology for the 2017–22 regulatory control period. We consider the proposed methodology gives effect to the pricing principles in the NER and complies with the requirements of the pricing methodology guidelines, as is required by clause 6A.24.1(c).[[11]](#footnote-11)

The approved pricing methodology is set out in attachment B of our final transmission determination.

## AusNet Services’ revised proposal

On 30 October 2015, AusNet Services submitted its proposed pricing methodology, which we approved in our draft decision.[[12]](#footnote-12) AusNet Services did not alter its proposed pricing methodology in their revised proposal.[[13]](#footnote-13)

AusNet Services' initial proposal noted its proposed pricing methodology was 'identical to that approved for the current regulatory control period'.[[14]](#footnote-14) That is, AusNet Services was not proposing to introduce any new or amended pricing arrangements in the 2017–22 regulatory control period.

When considering its proposed pricing methodology, AusNet Services stated it is important to note the transmission arrangements in Victoria differ from those in other states.[[15]](#footnote-15) Under these arrangements, AusNet Services owns and operates the majority of the declared shared transmission network. But, unlike other similar network operators in the National Electricity Market (NEM), AusNet Services does not have pricing responsibility for all transmission services in the region. Given this, AusNet Services proposed its pricing methodology should address only the pricing matters for which it has responsibility. These are prescribed entry services and prescribed exit services. This is the same approach taken with respect to AusNet Services' approved 2014–17 pricing methodology.

## AER’s assessment approach

We must approve a proposed pricing methodology if satisfied that it:

* gives effect to, and complies with, the pricing principles for prescribed transmission services[[16]](#footnote-16)
* complies with the information requirements of the pricing method guidelines.[[17]](#footnote-17)

In making our assessment, we agree the transmission arrangements in Victoria need to be considered. Our assessment of the transmission arrangements in Victoria are set out in our draft decision, attachment 12 – Pricing methodology.[[18]](#footnote-18)

## Reasons for final decision

Our draft decision approved AusNet Services' proposed pricing methodology.[[19]](#footnote-19) We did not receive any submissions in response to our draft decision. Therefore, our final decision is to approve AusNet Services' proposed pricing methodology.

1. NER, cl. 6A.2.2(4). [↑](#footnote-ref-1)
2. AEMC, Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22, 21 December 2006, p. 1. [↑](#footnote-ref-2)
3. NER, cl. 6A.24.1(b). [↑](#footnote-ref-3)
4. NER, cl. 6A.24.1(b)(1). [↑](#footnote-ref-4)
5. NER, cl. 6A.24.1(b)(2). [↑](#footnote-ref-5)
6. NER, cl. 6A.24.1(b)(3). [↑](#footnote-ref-6)
7. NER, cl. 6A.24.1(b)(4). [↑](#footnote-ref-7)
8. AusNet Services, Revenue proposal, Appendix 14A: Pricing methodology, 30 October 2015, p. 4. [↑](#footnote-ref-8)
9. AusNet Services, Revenue proposal, Appendix 14A: Pricing methodology, 30 October 2015, p. 4. [↑](#footnote-ref-9)
10. AusNet Services, Revenue proposal, Appendix 14A: Pricing methodology, 30 October 2015, p. 4. [↑](#footnote-ref-10)
11. NER, cl. 6A.14.1(8). [↑](#footnote-ref-11)
12. AER, AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology, 20 July 2016. [↑](#footnote-ref-12)
13. AusNet Services, Revised revenue proposal, 21 September 2016, p. 244. [↑](#footnote-ref-13)
14. AusNet Services, Revenue proposal, Appendix 14A: Pricing methodology, October 2015, p. 4. [↑](#footnote-ref-14)
15. AusNet Services, Revenue proposal, Appendix 14A: Pricing methodology, October 2015, p. 4. [↑](#footnote-ref-15)
16. NER, clause 6A.24.1(c)(1). [↑](#footnote-ref-16)
17. NER, clause 6A.24.1(c)(2). [↑](#footnote-ref-17)
18. AER, AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology, 20 July 2016. [↑](#footnote-ref-18)
19. AER, AusNet Services 2017-22 - Draft Decision - Attachment 12 - Pricing Methodology, 20 July 2016. [↑](#footnote-ref-19)